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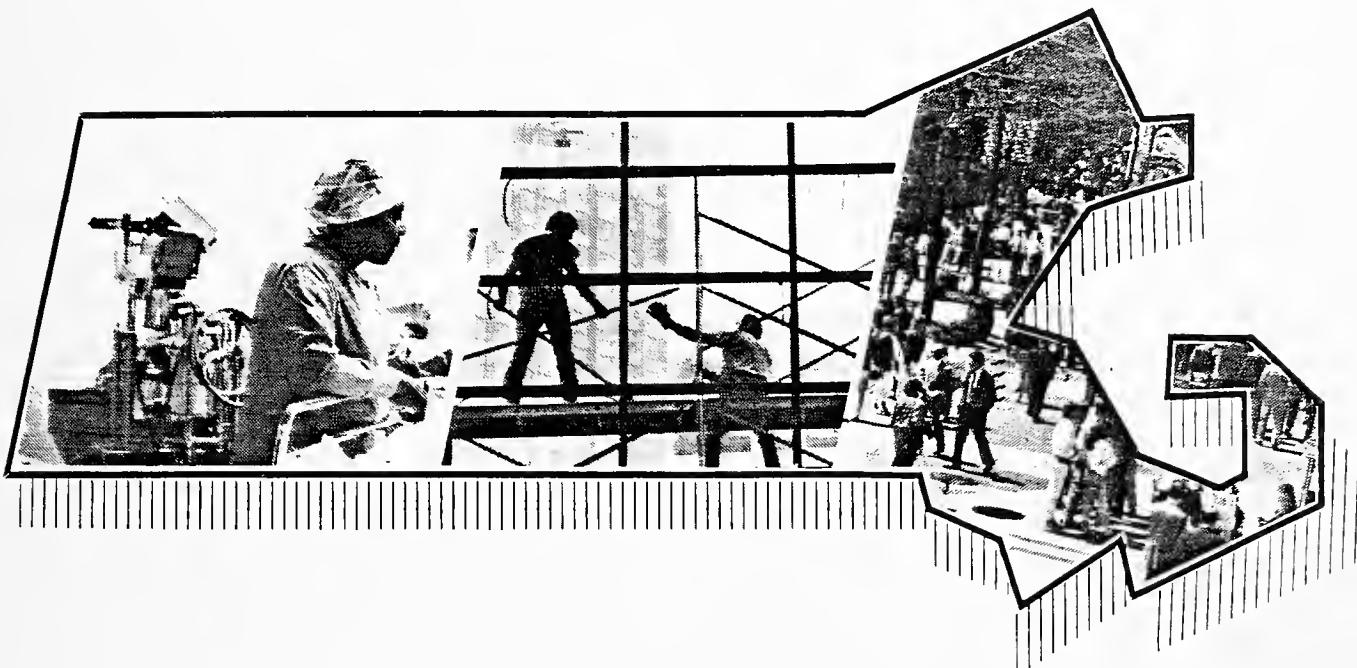
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THE MASSACHUSETTS ECONOMIC RECOVERY — GAME PLAN —



'With over 300,000 Massachusetts residents out of work, we need an economic game plan to get them back to work-now!'

Raymond L. Flynn, Mayor of Boston

April 6, 1991



CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR
RAYMOND L. FLYNN

April 6, 1991

Dear Friend:

Boston and Massachusetts are home to the finest universities in the world, the nation's foremost health care and medical research institutions, national fund management and venture capital companies, advanced technology companies, leading software firms, and businesses with a world-wide clientele. This is not an economy that should be left behind by changes in the global marketplace. On the contrary, most analysts believe that these are the industries of the future.

And yet, each day seems to bring news of layoffs and business failures. Most of us know people — neighbors, friends, relatives, co-workers -- who have been affected by the downturn in the economy. Economic conditions in Massachusetts are bad today and many analysts believe they will continue to worsen. Unemployment in the state reached 9.7 percent in March and is expected to soon climb to double-digits. The human toll is rising as families across the state face drastically reduced living standards.

Although the recession is now over 18 months old, the state government has been paralyzed, unable to respond in a positive way to help put Massachusetts back to work. With each passing month, a sense of helplessness and frustration becomes more pervasive.

With more than 300,000 Massachusetts residents out-of-work, we need an economic recovery game plan to put people back to work and to put the state firmly on the road to economic health.

A broad coalition of leaders from labor, business, the legislature, communities, churches, and cities and towns across the state recognize the need for a plan to get the economy moving again. Following weeks of discussion with people concerned about the state of the economy, I am putting forward for discussion a framework for economic recovery.

This proposal — a \$1.8 billion Economic Recovery Game Plan to create over 30,000 jobs — includes three parts.

- o Create a \$1.3 billion Jobs and Economic Development Fund. This includes \$500 million in bond proceeds that will leverage, on a matching basis, an additional \$800 million in local and private money. The \$1.3 billion total will

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be targeted to public and private projects needed to rebuild the economy and increase the state's competitiveness. These projects will put people back to work by creating 24,000 full-time jobs directly and indirectly.

- o Create a \$150 million **Human Capital Investment Initiative** to restore support for programs such as job training, vital human services, and basic education (including scholarships for college-bound young people). This will guarantee that our work force will have the skills needed to make the Massachusetts economy competitive and productive. In addition to being an investment in our future, this program will create and preserve 2000 permanent jobs.
- o **Level fund local aid** by restoring the \$110 million local aid cut for three years, for a total of \$330 million. This will give cities and towns the resources to adjust to new fiscal realities. It will also provide funds for basic municipal services -- from police and fire fighting to education, sanitation, to park and recreation -- that both residents and businesses need and depend on. Moreover, at least 4000 permanent jobs will be created and preserved.

The combined impact of this Economic Recovery Game Plan will be to create and retain over 30,000 desperately needed Massachusetts jobs. Each job means a family can be better supported, a worker can cease to be a burden on the economy through public assistance. The savings amounts to millions. That same worker can contribute to the general economic well-being and pay taxes. New state income tax revenues as a result of the Economic Recovery Game Plan could reach \$40 million. Thus, it is critical that we focus our efforts on putting people back to work.

The proposal presented here is simple and effective and the cost is reasonable. Revenue derives from a temporary 8.9 cents increase in the gas tax over the next three years dropping to 2.4 cents over the following twelve years. It will cost the average driver only a dollar a week for three years and then a quarter a week after that. The gas tax increase will not unduly burden the economy because, even with the increase, gas prices adjusted for inflation will remain well below what they were during the height of the state's economic boom in 1984-1985.

We cannot afford further delay in addressing our economic problems. We can no longer accept further erosion in the state's economic base. This proposal is a first step to recovery. We must take action now. Your support for these efforts is vitally needed -- to get our neighbors back to work.

Sincerely,



Raymond L. Flynn
Mayor of Boston

Massachusetts Economic Recovery Game Plan

Part I. The Massachusetts Economy: Time to Put People Back to Work

Massachusetts' Long Term Prospects

Boston and Massachusetts are home of the world's most renowned universities, research institutions, technologically-advanced companies, venture capital firms, and sophisticated support services companies. Yet well over 200,000 Massachusetts residents have lost their jobs in the past 18 months. These institutions, industries, and services provide the necessary foundation for an innovation-oriented economy which should perform well in the 1990s and beyond, but the state must emerge from recession to meet this potential. The key to economic success is the ability to innovate and to accommodate the change that accompanies innovation, and if Massachusetts can do this well it can enter a new era of prosperity.

National and world markets will increasingly demand those things that Massachusetts institutions and companies are well positioned to produce: medical care and research, biotechnology, computer software, instruments, sophisticated business services, pharmaceuticals, environmental technologies, and other knowledge-intensive industries and services. In short, the fundamentals required for Massachusetts to grow in the world economy and for economic prosperity to return are in place.

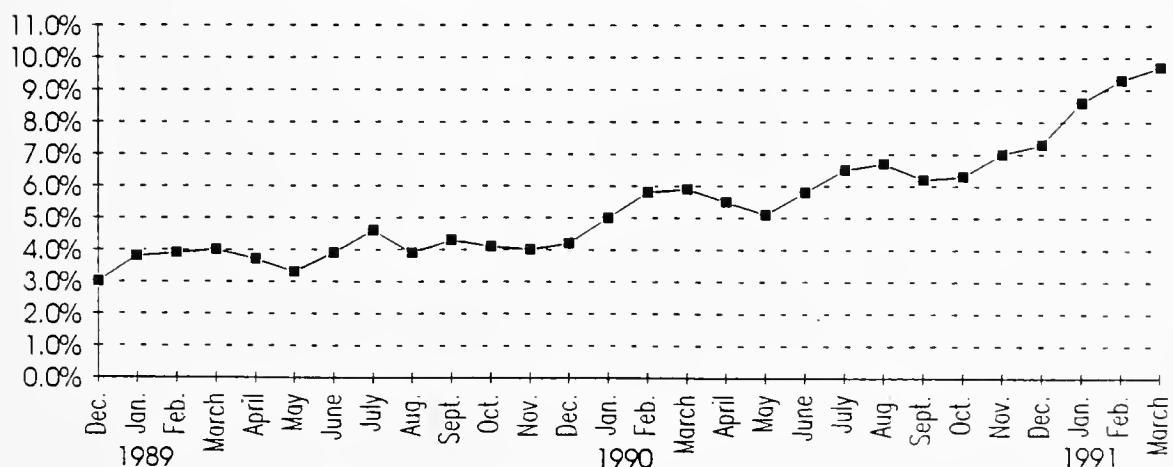
The projected recovery of the Massachusetts economy is not certain, however. The Commonwealth's current recession could turn into a period of prolonged economic stagnation. The growth potential inherent in the region's fundamental economic strengths might not be reached if it becomes impossible to bring public and private investment together to reinvigorate the regional economy.

Only investment builds the physical and human foundation for future prosperity: investment in education, in research laboratories, in transportation, in cultural and tourism facilities, in growing young companies and growing young people. It is investment that puts people back to work, and puts Massachusetts on the way to economic prosperity again.

Current Economic Conditions

The decline of the Massachusetts economy that began in 1988 continues and the human toll is mounting. Statewide unemployment reached 9.7 percent in March 1991, more than triple its 3 percent level in December 1988. Representing over 300,000 people out of work, this is the highest Massachusetts unemployment rate since 1976. In just the past year the Commonwealth lost about 136,000 jobs-- 4.5 percent of its total employment. In contrast, during the entire 1981-82 recession the state lost less than two percent of its jobs. Faced with bleak local prospects, the skilled labor force that is Massachusetts' major economic resource may migrate to other regions. The loss of this human capital could have significant, negative impacts.

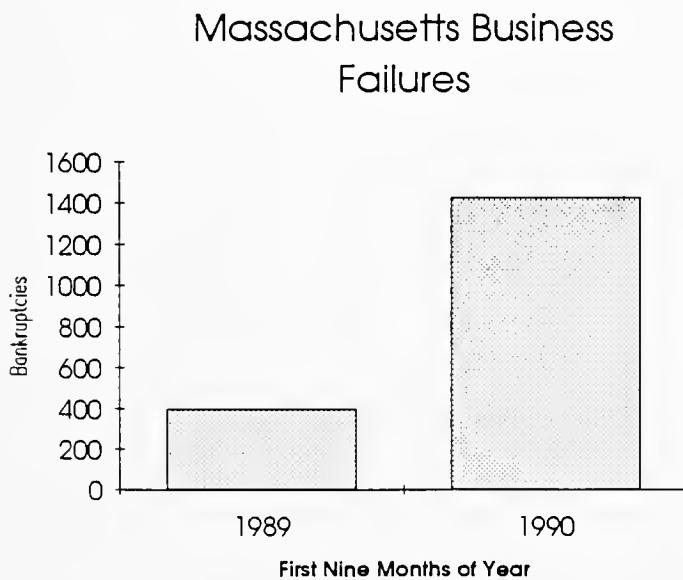
Massachusetts Unemployment Rate



Source: Mass. Dept. of Employment and Training

The recession has hit some industries harder than others. Almost 39,000 jobs were lost in retailing during 1990. In construction, 47,000 fewer workers were employed than at the end of the previous year; manufacturing employment fell by 40,000 during the year. The erosion of the Massachusetts manufacturing base is a disturbing longer-term trend in the deterioration of the local economy. Since 1984 Massachusetts has lost about 175,000 manufacturing jobs, over one-quarter of its base, while the nation has seen a 2.5 percent growth in manufacturing employment during this period.

In addition to a declining employment base, business failures have been increasing dramatically. The first nine months of 1990 saw a 261 percent increase in bankruptcies, rising to 1,426 from 395 during the same period of 1989. The Massachusetts rate of increase in business failures was greater than those experienced in Texas during 1986 and in the "rustbelt" during the early 1980s. These harsh statistics reflect a severely underperforming economy. Massachusetts ranked 44th among states in the rate of per capita income growth between the first quarters of 1989 and 1991.



Key Industries Suffering

The State's core industries have been hit hard. The mini-computer industry is restructuring and contracting as a result of the increased capacity of personal computers and linked work stations, and of a shift to open software systems. It was the rapid growth of the mini-computer market that led to the resurgence of manufacturing in Metropolitan Boston in the late 1970s and early 1980s. While the industry may pull out of its troubles, and while other Massachusetts computer firms in such areas as software, supercomputers and services are doing well, as of now thousands of people are laid off with poor prospects for getting new work.

Reductions in military spending as a result of Federal budget cuts have had a significant impact on Massachusetts' high-tech economy. Federal military spending in the 1980s had emphasized hardware and high technology research; it directly accounted for 8% of Massachusetts gross product and approximately 15% when a multiplier effect is factored. The size of Department of Defense research awards were four times larger per capita in Massachusetts than the national average, and the size of prime contracts was three times the national average. Even if military research and technology spending does not decline as much as overall Pentagon spending, the size of Massachusetts' defense-dependent industry means significant losses probably will occur: estimates ranges as high as 50,000-75,000 additional defense jobs to be lost in Massachusetts by the mid-1990s.

A large loss could occur very soon. This week the White House informed the Weld administration that it will not work to save Fort Devens in Ayer. The Army base could be targeted next month for closing, leading eventually to the loss of 6,700 military and 2,600 civilian jobs.



Job losses in industries such as defense and mini-computers affect many other local industries such as retail trade, services, real estate and construction. And as these weaken further, they reduce the resources available to banks, to individual investors, and to state and local government to finance a recovery.

The Credit Crunch

Much of the growth in the 1980s came from the companies, technologies, ideas and initiatives that emerged in response to the recessions of 1973-75 and 1981-82. The growth of new economic activity requires credit and investment. In prior times it was there. Today, this is not the case. The banking industry is not positioned to finance a recovery. Credit available to businesses from New England commercial banks contracted by 5 percent during the second half of 1990, compared to a 10 percent average gain from 1987 to 1989. Because of their own financial troubles and federal regulatory rules and actions, banks are being forced to loan less money. To do so they are withdrawing credit lines, demanding that more collateral be put up to back loans, trimming their estimates of the worth of collateral being offered, and simply turning down loan applications. Companies that have always depended on steady bank credit are suddenly being turned away.

The lack of access to credit markets is stifling new economic growth. This hurts especially in an economy like ours, which thrives on rapid growth of small companies in cutting-edge industries. These companies depend more heavily on bank financing than do large, established corporations.

A recent survey of Boston area firms that made Inc. Magazine's December 1990 list of the nation's 500 fastest-growing privately held companies found that most are being affected by lack of credit. These are not just run of the mill companies-- out of the countless numbers of firms of their type around the nation, these had the highest percentage increase in sales during the past

five years. Boston has the nation's second-highest concentration of these companies, and their growth will help us get out of the recession. However, financing their expansion has become a real problem. Eighty percent of these companies report that they are being impacted by the credit crunch, one-third of them "severely." One-third of the respondent firms have had their lines of credit renegotiated, capped or even suspended by their banks, and nearly a third report unusual delays in loan processing.

State Fiscal Crisis

In the early 1980s a strong economy and increasing state revenues allowed state government to finance economic development programs with job training and venture capital initiatives to stimulate private sector investment. However, as a result of a weakening in economic activity beginning in 1987, the Commonwealth's tax revenues have not kept up with its spending commitments, leaving the state with a major deficit and unable to finance economic development activity.

The fiscal mess continues to have a serious dampening effect on the economy by discouraging new business activity and investment. In addition, budget cuts are striking not only at peripheral programs, but also at core responsibilities of the state: to provide the foundation for a strong economy through education, and to care for basic human needs of the homeless and disadvantaged. These cuts still have not balanced the budget: the deficit is estimated at \$850 million and the state reportedly is considering additional borrowing to balance its books.

The hoped-for countercyclical boost to the economy through accelerated state capital investment has, thus far, not materialized. The Weld Administration and the Legislature are to be commended for their actions on the vital Transportation Bond Bill, which will authorize \$4.5 billion for important

transportation projects around the Commonwealth, including the Artery/Tunnel project. However, it will not put people to work quickly enough to fight the current recession. For example, the Central Artery/Third Harbor Tunnel Project is moving ahead, but slowly, mired in controversy and red tape. Major construction hiring is not anticipated this year, even though more than a thousand people were originally envisaged to have been working on the Project already.

The Transportation Bond Bill also will not provide any incentives to leverage *private* investment, which has the greatest power to turn our economy around. If state spending can be matched on a 2-1 or 3-1 basis from the private sector, every government dollar will accomplish much more.

Time for an Economic Plan

An economic stimulus is needed across the state to put people to work now and to build our economic base for the 1990s. An Economic Recovery Plan could quickly put thousands back to work across the Commonwealth, generating increased revenues for the state and a much-needed countercyclical boost for the economy. It could also build the foundation for our economic future through entrepreneurial, leveraged investments in research and technology, tourism and trade, and infrastructure necessary for economic development throughout the state.

Part II. Economic Recovery Game Plan

The Economic Recovery Game Plan is a simple and effective program for job creation and economic development. It is designed to provide a major stimulus to the economy in the near-term, through investments in the facilities and physical infrastructure necessary for a competitive economy and through investments in our human capital through education and critical human services. The program will create and retain 30,000 jobs through a combination of direct wages and through the multiplier effect as newly-employed workers increase their own spending.

Each person put back to work saves the Commonwealth as much as \$10,000 per year in public assistance. Workers become wealth generators and tax payers. The creation and preservation of 30,000 jobs will generate approximately \$40 million in additional state income tax revenues. Most importantly, each job means an individual or family is better supported and the pride and respect of work is available to another person. Accordingly, the emphasis for the Economic Recovery Game Plan is on job creation.

What is proposed is not make-work, however, but investment in the fundamental competitiveness of the Massachusetts economy. The Economic Recovery Game Plan will generate approximately \$1.8 billion in total investment in the economy over the next three years. This will provide the necessary stimulus to accelerate recovery and put Massachusetts firmly on the road to recovery. The cost is reasonable. The proposed increase in the gas tax will cost each Massachusetts driver an average of \$1.00 per week for 3 years, reduced to 25 cents per week for 12 years thereafter. The revenues generated will be targeted at putting people back to work while building a Massachusetts economy that is more competitive in world markets.

The credit crunch has meant that capital is unavailable or subject to terms that are simply impractical for projects to meet. For example, Boston's hospitals



are bringing millions of dollars in federal research money to the City, but there is a shortage of laboratory and research space. The construction of new space at the Olmsted Plaza project has been blocked by the unavailability of financing on terms the project can meet. The Economic Development Recovery Game Plan makes available \$250 million in new working capital -- both grants and credit enhancements -- to allow for the construction of such facilities that will be the anchors of the new economy.

The program has three parts:

- o The Jobs and Economic Development Fund,
- o The Human Capital Development Initiative, and
- o Local Aid Level Funding.

The Jobs and Economic Development Fund

A portion (2.4 cents per gallon) of the increased gas tax will amortize a \$500 million special obligation bond. The \$500 million bond will fund Economic Recovery Action Grants and Credit Enhancements targeted at jobs creation and building a more competitive economy. Matching formulas will leverage an additional \$800 million in local and private investment for a total investment in the Massachusetts economy of \$1.3 billion.

The program will be fast acting, with a minimum of red tape. It will rely on incentives and matching grants to assure that initiative is located efficiently at the local level and in the private sector.

Through direct job creation and multiplier effects, the Jobs and Economic Development Fund will generate 30,000 new jobs in the economy.

The Jobs and Economic Development Fund will create the following initiatives:

ASSISTANCE TO CITIES AND TOWNS

- **Formula Grants.** Economic Recovery Action Grants will be allocated to cities and towns on a per capita basis to finance infrastructure and economic development projects. Grants totalling \$200 million will be matched locally on a 1:1 basis to generate a total investment of \$400 million. This investment will assure that municipalities have the capability to continue to provide the support necessary for a strong local economy and retain jobs.
- **Grants to Distressed Communities.** Economic Development Action Grants for distressed cities and towns will make available on a competitive basis \$50 million for capital projects in cities and towns with an unemployment rate exceeding 10 percent. No local match will be required. Many municipalities, particularly in Western Massachusetts, will not directly benefit from the Commonwealth's largest infrastructure initiatives, such as the megaprojects. The \$50 million fund provides a vehicle for jobs creation and enhanced competitiveness in these regions.

ECONOMIC PARTNERSHIP ASSISTANCE

- **Grants.** Economic Recovery Action Grants will be allocated on a competitive basis to finance capital investment in research and development, tourism and trade, and other core industries. Grant recipients will include private, for-profit concerns and non-profits including scientific, educational, and arts groups. Grants totalling \$150 million will be matched on a 2:1 basis to generate \$450 million in total investment.
- **Credit Enhancement.** Economic Recovery Loan Guarantees and Credit Enhancements will be allocated on a competitive basis for critical economic development projects. Credit enhancements totalling \$100 million matched on a 3:1 basis will yield \$400 million in total investment. Credit enhancements will unblock private projects now halted because of the credit crunch.

Human Capital Development Initiatives Program

The future of the Massachusetts economy rests on growth in knowledge-based industries, research, and advanced technologies. The productivity and competitiveness of these sectors is dependant on the capability of the human capital available -- the workers, managers, technicians, and professionals who operate the firms and institutions. Saving money by cutting back on investment in the state's human capital ultimately will not speed recovery because it undermines the source of the economy's strength and competitiveness.

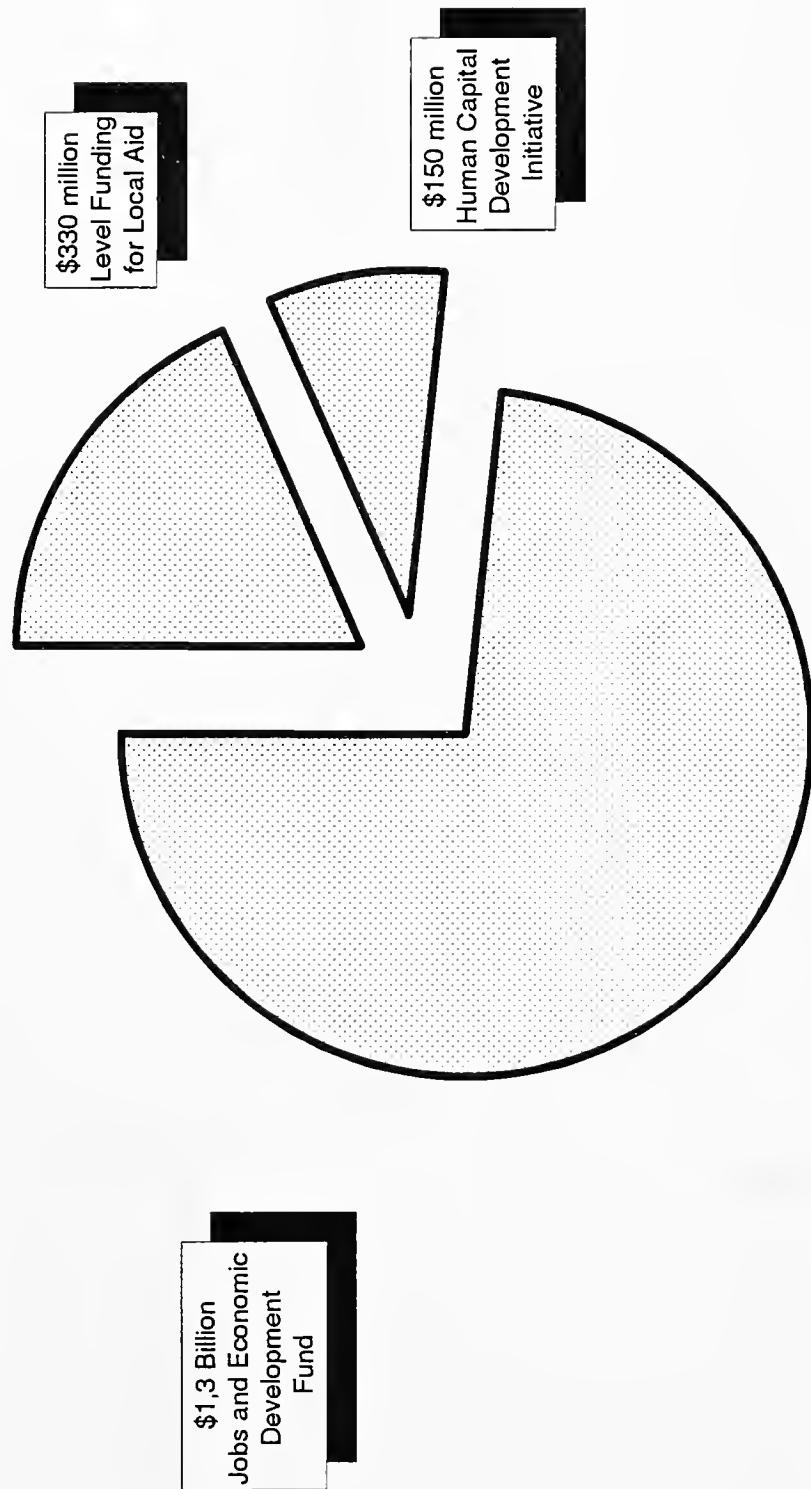
The Economic Recovery Game Plan allocates \$50 million per year for three years to assure that scholarship programs are maintained, adult education and training is supported, and the states' public higher education institutions remain accessible to children of families of modest means. The funds will also be available to support the most critical human services essential to the health of disadvantaged members of the community.

Level Funding of Local Aid

The Economic Recovery Game Plan allocates \$110 million per year for three years to restore local aid cuts ordered by Governor Weld in March. This will give municipalities a reasonable period in which to adjust to new fiscal realities and prevent losses in essential government services such as police and firefighting.



Economic Recovery Game Plan
\$1.8 Billion Investment in the Economy
30,000 Jobs Now



Jobs & Economic Development Fund

1.3 Billion in Economic Investment

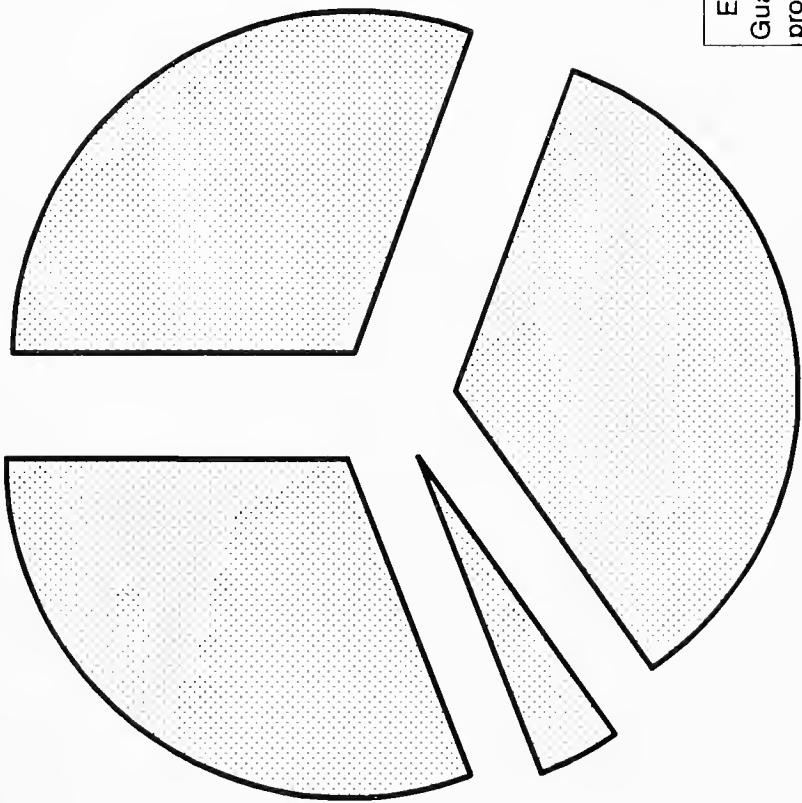
24,000 Jobs Now

Cities & Towns Economic Action Grants \$200 million on a 1:1 match producing \$400 million in economic investment

Economic Action Grants
\$150 million on a 2:1 match
producing \$450 million
in investment

Distressed Cities & Towns Economic Grants \$50 million allocated on a Competitive Basis for the 163 Cities & Towns with Unemployment above 10%

Economic Recovery Loan
Guarantees for critical private projects \$100 million on a 3:1 match producing \$400 million in economic investment



Sample Jobs & Economic Development Fund Projects

<u>Type of Project</u>	<u>Strategy</u>	<u>Benefits</u>
Biotech (Research and office facility)	Loan Guarantee Private Capital <hr/> Total Dev. Cost	\$20 million \$174 million <hr/> \$194 million
Tourism/Trade (Major public attraction)	Matching Grant Non-Profit Capital	\$20 million \$90 million <hr/> \$110 million
Municipal (Major public safety facility)	Matching Grant Local Capital	755 Construction Jobs 275 Permanent Jobs \$500k State Revenue/Perm. Jobs <hr/> \$1.3m State Revenue/Construction Jobs
		350 Construction Jobs 880 Permanent Jobs \$1.6m State Revenue/Perm. Jobs <hr/> \$620k State Revenue/Construction Jobs

Revenue Source

The Economic Recovery Game Plan is based on an 8.9 cent rise in gasoline taxes for three years. A three-year revenue stream of \$219 million per year will result from the rise in the state's gasoline tax.

- Most of the gas tax (6.5 cents) will be eliminated in 1994, since it is dedicated to funding local aid and targeted initiatives for fiscal years 1992-94.
- A remaining 2.4 cent tax will continue, funding a 15 year \$500 million bond issue for economic infrastructure investment.
- With gasoline prices falling, the additional tax would not raise prices anywhere near the levels of recent months. Boston's average price per gallon of unleaded regular gasoline in March was \$1.15, compared to average prices of \$1.31-\$1.47 in September through January.
- The somewhat higher gasoline prices will not affect economic conditions. On an inflation-adjusted basis, gas prices would be much less than they were during the height of Massachusetts' boom in 1984-85.
- Each driver will pay an average of \$1.00 a week to help put 25,000 people back to work and pull our economy out of recession. After 1994 the cost will be only 25 cents a week.

Part III. City-State Economic Recovery Partnership

On February 16 Boston Mayor Raymond Flynn and Massachusetts Governor William Weld met to launch a cooperative effort to get key Boston development projects underway this year. These projects include such diverse investments as research labs, a hotel, sports facilities and retail stores. The projects total \$800 million and would create 4,300 construction jobs. Their development would generate substantial revenues for both city and state, while helping to revitalize the economy. They would also produce \$10 million in affordable housing and jobs training linkage funds.

Weld and Flynn agreed to work together to cut through regulatory red tape and help obtain financial and other types of assistance for the projects, such as a commitment of state tenancy for Ruggles Center in Roxbury.

Mega-Projects

The city and state also agreed to do everything possible to move forward the Mega-Projects, the major public infrastructure investments that will clean Boston Harbor and transform Boston's highway system.

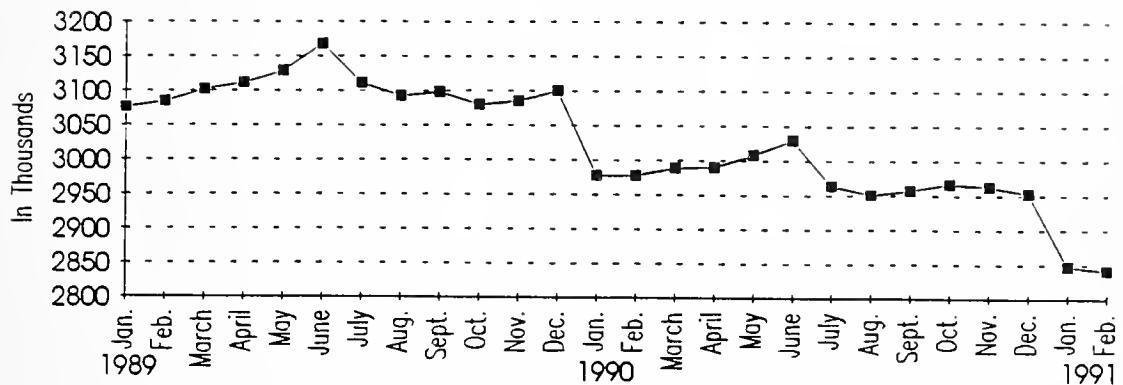
If the projects could emerge from red tape to move forward as planned, spending on them in 1991 could total \$630 million in hard construction activity and employ 2,250 construction workers. But this would happen only if work on the Third Harbor Tunnel begins quickly. The value addition of these major projects goes beyond the positive countercyclical effects on the recession. The substantial upgrading of the state's economic infrastructure is a real foundation for economic progress.

The kind of progress and immediate job benefits that could emerge from this city-state cooperative effort, and from the Massachusetts Economic Recovery Game Plan, might be exemplified by the construction of a new Boston Garden. The Garden project would generate over 400 construction jobs over two to three years. When completed, more than 250 dates a year would be scheduled, attracting events that do not now come to Boston for lack of a suitable facility. These events will help generate additional economic activity, attracting more visitors to Boston and creating revenues for the Commonwealth.

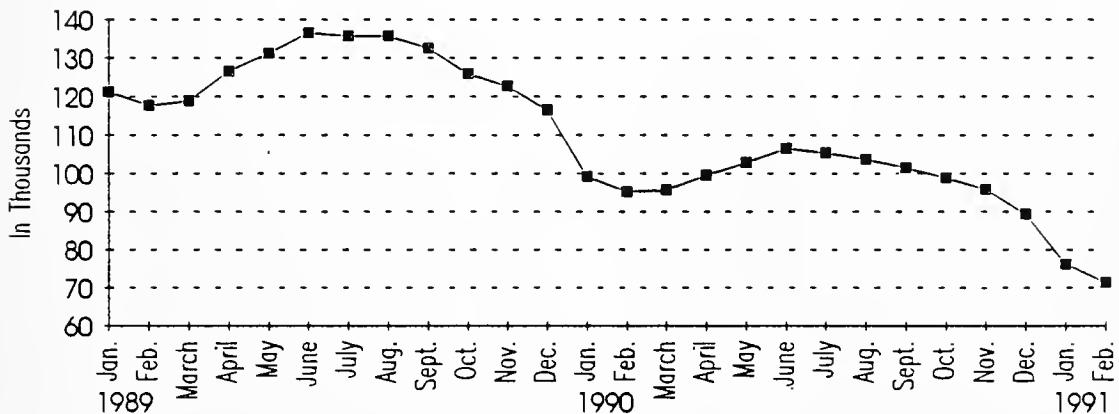
1991 Pipeline

	Total Sq. Ft.	Cnstr. Jobs	Prmnt. Jobs	Jobs Linkage	Housing Linkage	TDC Millions	Property Taxes	Annual Taxes	State Const. Income	Const. Start	Cnstr. Comp	State Taxes	Est. Comp
Prudential - Phase I	264,000	237	500	\$225,000	\$625,000	\$65.0	\$1,000,000	\$2,315,000	\$437,000	1991	1993		
Olmsted - Phase I	776,000	906	1,639	\$676,000	\$3,380,000	\$194.0	\$1,500,000	\$3,275,000	\$1,670,438	1991	1993		
Custom House	313,000	368	340	\$255,000	\$1,015,000	\$115.0	\$450,000	\$1,554,000	\$678,500	1991	1993		
CNY Parcel 7, Phase I	300,000	660	617	\$200,000	\$1,000,000	\$100.0	\$2,500,000	\$1,266,000	\$1,216,875	1991	1993		
Ruggles Center Phase I	241,000	212	1,205	\$141,000	\$705,000	\$62.0	\$918,000	\$1,487,000	\$390,900	1991	1993		
South Station	1,040,000	1,781	817	\$290,000	\$1,450,000	\$244.0	\$1,100,000	\$1,735,000	\$1,670,440	1992	1996		
School Track Facility	215,000	193	25	N/A	N/A	\$35.0	N/A	\$40,000	\$355,000	1991	1993		
TOTAL	3,149,000	4,357	5,143	\$1,787,000	\$8,175,000	\$815	\$7,468,000	\$11,672,000	\$6,419,153				

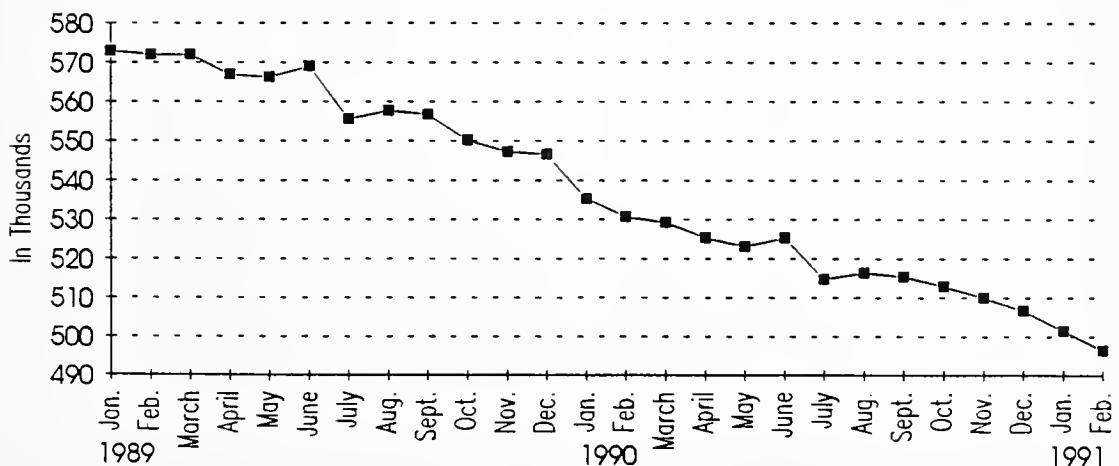
Total Massachusetts Employment



Massachusetts Construction Employment



Massachusetts Manufacturing Employment



Source: Mass. Dept. of Employment and Training

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